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TAGS: [EINV](#) [EFIN](#) [ETRD](#) [TS](#)  
SUBJECT: REAL ESTATE IN TUNISIA: AS GOOD AS GOLD?

REF: A. TUNIS 52  
[B](#). 07 TUNIS 1528  
[C](#). 07 TUNIS 1443  
[D](#). 07 TUNIS 1433

Classified By: Ambassador Robert F. Godec for Reasons 1.4 (b) and (d).

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Summary  
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[1](#). (C) As Tunis' crane-filled skyline attests, real estate development is alive and well in Tunisia. While the announcement of numerous multi-billion dollar Gulf real estate projects has been dominating the headlines, the majority of real estate development represents smaller investments by Tunisians with money. Rather than demonstrating the health of the Tunisian economy, however, current real estate investment signals the lack of other profitable investment opportunities. Although the number of vacant buildings continues to rise, particularly in Tunis, housing prices have also increased, reflecting the distortion in the market. Tunisia has long prided itself on a solid middle class with high rates of home ownership, but high inflation and unemployment are threatening the dream for many Tunisians. Thus far the global housing downturn has had little or no impact on the Tunisian market, but Tunisia may yet feel the effect. End Summary.

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Part-time Developers  
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[2](#). (C) Even though Gulf projects are high-dollar and in the news (Ref A), the majority of real estate development is undertaken by Tunisians. Citibank Director General Haykel Belhassine told Econoff that the bulk of real estate development represented "opportunistic development" by Tunisian investors rather than projects by professional real estate development groups. Belhassine explained that most of the projects are undertaken by Tunisian business people involved in other sectors and asserted that much of the current investment was land speculation. He estimated that land values were growing at 15-20 percent per year over the past ten years and with the announcement of many large megaprojects Tunisian investors are betting on price increases on land and building materials, such as steel and cement.

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13. (C) Many Tunisian businessmen and economists argue that real estate development in Tunisia is the equivalent of placing money in a savings account or buying gold. Private economic consultant Ezzeddine Saidane argued that real estate development is a way of recycling money since Tunisian investors lack the confidence necessary to undertake new projects. Numerous Tunisian business people have cited corruption as the primary deterrent to new investment and view real estate development as one mechanism to avoid losing control of their investments. In addition, low interest rates on savings accounts -- which are often negative in real terms due to current inflation rates -- makes saving money an unprofitable option. While foreign direct investment rates appear healthy, Tunisian private domestic investment rates remain extremely low at 12.5 percent (Ref D). Saidane lamented that private domestic investment has been at a standstill during the past seven to eight years with a marginal number of new projects. Belhassine echoed this, stating that Tunisian investors have no long-term vision and are just interested in a quick buck. However, several businesspeople have argued that these amateur real estate developers do not even care if they make an immediate profit and are willing to leave land and properties empty. Many investors may also be lured to real estate by GOT tax deductions, originally offered to encourage investors to build family-housing.

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If You Build It, They Will Come?

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14. (C) Belhassine estimated that the demand for housing would continue to increase due to the aging of Tunisia's currently young population. However, as of the last survey in 2004, there were 314,000 empty homes and apartments in Tunisia. With the continued pace of home construction this number is believed to have increased in the intervening years. Saidane explained that since many Tunisians are treating real estate as a store of wealth, they do not need to rent their properties. Marouane Abassi, Professor of Economics at the Institute for Advanced Commercial Studies (IHEC) and consultant with the World Bank, noted the distortion this creates in the housing market, with rising prices and empty homes not added to the market. The demand for commercial development is also far from clear given low and stagnant private domestic investment rates (Ref D). Saidane estimated that there are nearly 100,000 square meters of vacant commercial real estate. Yet, Gulf and Tunisian investors alike continue to build additional commercial office space. Saidane noted, in particular, the limited utility of the Bahrain Financial House project (Ref A) to build a financial harbor in Tunis given the continuing weakness of Tunisia's own financial sector. "Who will support this project?" he exclaimed, "The Tunisian financial sector? The non-existent regional financial sector?"

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Tradition of Home Ownership

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15. (SBU) The GOT prides itself on its high rate of home ownership and considers it a testament to its success in fostering a solid middle class. Professor Abassi emphasized that increasing home ownership was central to former President Habib Bourguiba's strategy for Tunisia's development. According to GOT estimates, nearly 80 percent of Tunisians are middle class and roughly the same percentage live in a family-owned home. The high rate of home ownership is a result of GOT emphasis on property ownership as a right and a concerted push by GOT agencies to build housing and to provide low-interest loans, particularly in the 1970s. Abassi remarked that due to the high inflation -- nearly 10 percent -- in the 1970s, Tunisians benefited from negative real interest rates on home loans with a nominal three to four percent interest rate. However, as one former World

Bank economist pointed out, the high rate of Tunisians living in family-owned homes could be because no one can afford to move out of the family home. Certainly, the cultural tendency to live with parents before marriage is a factor, but high home and rent prices also keep younger Tunisians at home.

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Home Ownership Increasingly Elusive  
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¶6. (SBU) With median salaries relatively low, high inflation has made housing less affordable than in the past. Rising housing, fuel, and food costs are eroding Tunisian purchasing power. The combination of inflation and high unemployment have placed the dream of ownership out of reach for many Tunisians. Mortgage terms have now increased from a standard 7 years to 30 years, indicating that housing is not as affordable as it once was. A recent study by the Global Property Guide, found that the price per square meter in Tunis was nearly US \$2,500, making Tunis the third most expensive city for housing in the Middle East after Tel Aviv and Dubai. Within the Embassy housing pool, average lease costs have increased 36 percent from 1999 to date. Many young professionals complain that their low salaries simply do not allow them to move out on their own. Building extensions to the family home is an increasingly common tactic, which is not reflected in GOT home ownership statistics. For those Tunisians who do build their own homes, the process is often spread out over many years as they build one floor or one room at a time as funds allow. In an effort to facilitate access to credit for home purchases, the Governor of the Central Bank recently announced measures to reduce interest rates and lengthen repayment terms. However, Abassi assessed that these efforts would have a marginal impact. The bigger problems, he stated, were unemployment and inflation.

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Comment  
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¶7. (C) On first glance, the crane-filled skyline suggests the growth of the Tunisian economy; upon closer inspection, however, it reveals many of the economy's structural problems. Weak investor confidence and persistent rumors of corruption are keeping private domestic investment low and are misdirecting investment to housing and commercial real estate. The empty buildings are the modern-day equivalent of investing in jewelry or keeping money under the mattress. While few Tunisian business people believe a correction in the real estate market is likely in the near future, all recognize that land speculation and real estate development are not the most productive investments for the Tunisian economy. With housing prices beginning to drop in the United States and beyond, the Tunisian market may yet feel the effects of the global housing downturn.

¶8. (C) Yet the impact of this disequilibrium is as much social as economic. High and rising housing prices threaten to place home ownership out of reach for many Tunisians, reducing Tunisia's traditionally high rate of home ownership.

As Tunisians continue to express frustration with rising prices for food, fuel, and housing and a continually high rate of unemployment (Ref C), it is time for the GOT to pick up its traditionally slow pace of reform. For a regime that derives its legitimacy from delivering economic growth and social stability, the GOT ignores its economic problems at its own peril. End Comment.

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